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Soviet Economic Growth and Asian Development

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Caveat - What follows represents views of [REDACTED]. Should not be attributed to CIA.

Communism is more than a political challenge; it is above all else an economic way of life.

What is the Soviet economic system? There is, of course, the familiar institutional arrangement of state ownership of virtually all means of production, compared to the predominance of private ownership in Western nations.

However, far more important than the disparity between who owns what is the contrast in economic policy. In the United States the primary objective of economic activity is to increase consumer welfare. The over-all allocation of resources is determined by the decisions which the people individually make. They decide how much to spend and how much to save. These decisions, in turn, become demands for various types of goods in the marketplace. They are reflected back into the structuring of the entire economy. It is not surprising that a market economy utilizes a relatively high proportion of its annual output for consumption purposes. Such a pattern is implicit in the concept of consumer sovereignty.

The central theme of Soviet economic policy, which has remained unchanged since the beginning, is forced-draft industrialization. Stalin publicly proclaimed the reason for the emphasis on industrial development. Russia, he said, had been beaten many times in the past because of her backwardness. For its own safety, the USSR must make good the distance it was lagging behind the advanced capitalist nations. Only then, he concluded, would it be possible to devote resources to improving living standards in any serious way.

Economic Growth - Now less than 30 years since Stalin consolidated his political power in the USSR and serious attention was directed to industrialization. Year 1928 saw initiation of First Five Year Plan.

In this brief time span, Soviet Union has developed rapidly from a predominantly agricultural, industrially underdeveloped country to unquestioned rank as the second largest economy in the world. Total production of goods and services in 1955 about 1 3/4 times that of the United Kingdom, the third largest power.

This growth, even more remarkable considering the destructive effects of World War II, has been achieved by a variety of means, four of which are probably most important:

- (1) Transfer of millions of workers from agriculture to urban occupations,

- (2) A parallel prodigious effort to educate them in modern skills and technology,
- (3) The diversion of an unusually large proportion ($1\frac{1}{2}$ to 2 times that of the U.S.), of national product to investment, and
- (4) The concentration of investment funds in heavy industry, particularly electric power, metallurgy, and producers goods.

Logical result is that the USSR treats the welfare of its people as a minimum requirement in planning, and essentially as a residual in plan execution.

Two examples make this clear:

- (1) While capital goods output rose over 10 times in successive five year plans, agricultural production failed to match the growth of population - implying some decrease in living standards.
- (2) Plan goals for heavy industry are usually surpassed while the correspondingly modest goals for consumer goods are chronically underfulfilled.

Where has this course of action led the Soviets in their drive to catch up with the West, particularly with the United States? In aggregate value terms, 1956 Soviet industrial output

stood at about one-third of that of the United States. However, Soviet production of some key basic industrial raw materials and of manufacturing equipment is already about equal to that of the U.S. This is true for a few, but not for many such hard goods. On the other hand, Soviet output of consumers goods was far below corresponding American levels. Specifically,

- (1) Output of coal in the USSR was virtually equal to that in the U.S.
- (2) Production of machine tools was equal and possibly greater.
- (3) Steel output, while substantial, was still somewhat less than half that of the U.S. However, expansion of steel output in the USSR for 1956-60 was about equal in tonnage to that of the U.S. Therefore, the production of the steel mill equipment industries is about the same in the two countries.
- (4) Consumer goods, on the other hand, provide a startling contrast. U.S. automobile production was about 90 times that of the USSR. Washing machine manufacture was over 50 times greater, and U.S. radio and TV set output was about 5 times that of the USSR.

I would like to turn for a moment from the comparison of absolute figures of production to the relative rates of growth in the two countries, concentrating on the postwar period. We

can pass quickly over the phenomenal industrial growth rates of the Soviet Fourth Five Year Plan - 1946-50. This period was essentially one of reconstruction and was therefore a special case. As has been aptly said, in battlefield countries war not only raises hell but also raises the marginal efficiency of capital.

But in the years of the Fifth Five Year Plan, 1950-55, the special factors were no longer present. Soviet industry had recovered from the war - further increases in output could only be obtained by the construction of new plants rather than by repairing damaged ones. The looting of Satellite and Manchurian plants had long since come to an end. And during the 5 year period we have just seen end, Soviet industrial production grew over 70 percent compared to 23 percent in the United States, or nearly three times as rapidly. For this comparison, we have not used the official Soviet index of industrial output, but have deflated it for known differences with our own Federal Reserve Board index. The comparison is, as nearly as we can make it, an honest-to-God one.

What does this development mean from the standpoint of Soviet ability to influence Asian economic development? I would like to consider this from two standpoints, first, the propaganda appeal of rapid Soviet industrialization, and, second, from the standpoint of Soviet economic capabilities.

Why are the countries of Asia susceptible to the Soviet propaganda line? First of all, in all underdeveloped countries, there is tremendous pressure for economic betterment. The people as well as the leaders are convinced, rightly or wrongly, that this requires rapid industrialization. Though they are generally dedicated to political and individual freedom, they will not remain loyal to these concepts if the price is economic stagnation.

Second, underdeveloped countries are inclined to believe the Soviet line that industrialization by free enterprise methods took 150 years in Western countries, and they can't wait that long. Soviet propaganda, emphasizing that the USSR made itself a great industrial power in one generation, starting from scratch, and without any help from the West, is very appealing. The Soviets, of course, do not speak of the appalling cost in human suffering, its denial of human rights, and its sharp limitation on living standards.

To move on to economic considerations, the expansion of trade with underdeveloped areas makes good economic sense to the Soviet leaders for two reasons:

- (1) The USSR needs additional raw materials because of shortages of its own production - for example, bauxite, copper, textile fibers, rubber, and industrial diamonds.
- (2) It can use additional agricultural products which are available as export surpluses in many underdeveloped countries.

Furthermore, the USSR has developed its manufacturing capabilities to a point where it can now afford to export many types of industrial equipment in exchange for needed imports. The strength of the Soviet economy appears to have reduced historic Soviet fears of losing economic independence through reliance on foreign sources of supply. The Communist leaders apparently realize that a marginal degree of reliance on non-Bloc sources of supply for certain foodstuffs and raw materials is preferable to a more rigid policy of autarky, since it offers the promise of more rapid rates of economic growth.

What are Soviet capabilities today? First, gross national product in the USSR in 1956 probably was about \$150 billions, of which industrial output alone was about \$50 billions. To date, the total of credit commitments to underdeveloped areas implies an annual delivery of producers goods of from \$50 to \$100 millions a year, or from one to two percent of current output. Further, we should keep in mind that this is a credit program, not a series of grants in aid. For most of it, the Soviets expect to receive a future quid pro quo in the form of raw materials or agricultural commodities.

Apart from industrial goods, sales of military equipment have been prominent. Most of this military equipment is obsolescent

or obsolete - its disposal in exchange for needed raw materials represents no strain on the Soviet economy. If these armaments were not disposed of abroad, they would revert to dead storage in the USSR, which follows a long-run policy of re-equipping its own forces. At the same time, the smaller nations hunger for such equipment, as an element of prestige and power. Included in the export package are technicians. There probably are well over 500 of these presently in underdeveloped nations, primarily in connection with a host of projects in Afghanistan and at work on the Indian steel mill. In the Soviet Union, about 125,000 people graduate each year from scientific and technical universities. Therefore, the total number sent abroad so far is only a fraction of one percent of the one year's graduates.

In summary, it is clear that the Soviet capabilities to provide exports of capital goods, technical assistance, and military equipment could be expanded many times over present levels without forcing a fundamental reorientation of economic goals. Soviet motives in stepping up economic relations with underdeveloped countries are not, of course, primarily motivated by economic needs. The Middle East turmoil typifies the usual complex of political and military advantages as well. But economic export capabilities give the Soviet leaders a new and powerful weapon in the international power struggle.

Satellites

When we turn from the USSR to the European Satellites, the economic motivation for trade with underdeveloped countries becomes even stronger. Under the leadership of their Soviet masters, the Satellites have been engaged in a program of rapid expansion of the metallurgical and producers goods industries. The Satellites do not have the necessary indigenous raw material base; procurement of a substantial part of input needs from non-Bloc sources is almost a necessity. Further, the agricultural sector of the EuSats economies, in true Soviet fashion, have been the stepchild in investment allocations, resulting in food deficits. It is not surprising to find the Satellites developing a trade pattern which involves the exchange of machinery and equipment for raw materials and foodstuffs, and to find them carrying over 50 percent of the trade program.

The Satellites have also been a convenient "front" for the Soviet Union in armament deals, most notably in the case of Egypt.

Communist China has recently joined in the trade offensive, concentrating on a few countries including India, Burma, Indonesia, Egypt and Pakistan. The traditional agricultural character of Chinese exports to these areas has changed. We now see textiles, light manufacturers and steel products being sent, which reflects the growth of industry in mainland China. In 1956, China for the first time expanded an entire plant complex. This was a

textile mill for the Burmese, under the terms of the Sino-Burmese rice-barter agreement.

Communist Chinese industrial capabilities have been increasing sharply, much farther than those of India, and probably will continue to do so. She has been receiving about \$800 millions worth of industrial plants, machinery and equipment from the USSR each year, and about \$400 millions more from the European Satellites. As her industries develop, China will be more and more capable of using a part of her output to further the spread of Communist influence in Southeast Asia. In the meantime, the propaganda aspects of rapid industrial growth are being exploited, and China's success pointed to as proof that the Communist way is the only real way to make rapid industrial progress.

In summary -

- (1) The rapid industrial growth of the USSR and of other members of the Bloc provide the Kremlin leadership with a formidable economic weapon to influence the political orientation of underdeveloped areas. The new package consists of cheap armaments, industrial equipment, technical skills in the form of Soviet advisors and the providing of a ready market for raw materials.
- (2) To date, the program absorbs a very small share of Bloc output - probably less than one percent of total gross national product.

- (3) It has been concentrated in a handful of countries, undoubtedly for political reasons. Yugoslavia, Egypt, Afghanistan, India and Indonesia have received roughly 90 percent of the aid offered.
- (4) There is no visible economic reason why the program cannot be expanded substantially over its present levels, at very small economic cost to the Bloc.